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SUBJECT: NEW INCENTIVES FUEL ADDITIONAL HOPES FOR ROBUST
FILM INDUSTRY GROWTH IN SOUTH AFRICA

Introduction & Summary

¶1. The feature and commercial film industry in South Africa continues to grow vigorously. An industry that in 1995 generated 4,000 jobs now employs an estimated 20,000 workers. Film production ranging from commercials and shorts to full-length movies produced in South Africa has grown substantially. The total value of the South African entertainment industry is estimated to be about 7.7 billion Rand (USD 1.25 billion). South Africa, especially Cape Town, is capitalizing on a number of advantages that include good weather, a diversity of locations, English-speaking and experienced film crews and technicians, and good infrastructure to market its filmmaking capacity. On July 1, the South African government finalized a rebate/incentive scheme designed to bolster South Africa's claim to being a "high-quality production site for international and local film-making." The incentive plan will provide as much as 10 million Rand in rebates for film productions of more than 25 million Rand. The incentives will help to bring South Africa into line with incentives schemes offered in Australia, Canada and New Zealand. A recent upsurge in quality productions and filming with named stars - Samuel L. Jackson, Colin Farrell, Nicholas Cage, Selma Hayek, and Sean Penn - as well as the start of development of a substantial Hollywood-style film studio in Cape Town are providing additional impetus to South Africa's film industry. Other incentives and help for the film industry include support from the Industrial Development Corporation, the National Film & Video Foundation, municipal governments and regional film Commissions. While the future appears rosy for feature films, bumps in the road may appear. The high costs of the Rand and loss of commercial advertisements place constraints on the generally optimistic scenario for the future. End introduction and Summary.

Rebate Program

¶2. The Film and Television Production Rebate, established by the Department of Trade and Industry (DTI) on July 1, targets the production of foreign and local large budget films made in South Africa or under co-production agreements. (A downloadable brochure on the rebate scheme can be found on the DTI's web site at www.dti.org.za.) Eligible companies must either be a South African resident company or a non-South African company with a South African business registration. Eligible applicants will qualify for a 15 per cent rebate on production expenditures for foreign productions (and up to 25 per cent on production expenses for South African companies.) Film projects must have begun after April 1, 2004 and must reach a threshold of 25 million Rand in order to qualify for the rebates. Other requirements include 50 per cent completion of the principal photography in South Africa and a minimum of four weeks photography time. Eligible productions include feature movies, tele-movies, television series, and documentaries. The maximum rebate for any project will be 10 million Rand (USD 1.5 million). One attractive feature of the rebate system is that it allows for a company to bundle more than one production in order to achieve the 25 million Rand threshold.

¶3. The DTI worked with the Department of Arts and Culture (DAC) and the Department of Communication (DOC) in formulating the strategy to develop the "content industries" because all three Departments share competency in this subject. Content constitutes cultural artifact (DAC), is a tradable commodity (DTI), and relates to television programs, cinema, animation, video, electronic games and any other audio-visual mode of packaging (DOC). In establishing this new incentive, the government recognizes the contribution of film productions to South Africa's economic development by providing valuable economic, employment and skill development opportunities. The rebate is exempt from income tax.

14. According to Martin Cuff of the Cape Film Commission, there are other incentives available to filmmakers. One of these is flexible agreements with co-production partners. These allow for the modest use of foreign government supports for projects partially realized in South Africa. Currently South Africa has co-production agreements with Canada, Italy, and soon with Germany. They allow monies from these countries to be spent in South Africa. Section 24F of the Income Tax Act No. 58 of 1962 allows a tax deferral of up to two years in order for film producers to realize box office revenue and gives tax relief for individual investors in film production. Overall, Cuff believes the various incentives are an important psychological carrot and more modest financial inducement that are enhancing South Africa's ability to compete internationally.

Cape Town & Johannesburg

15. The South African film industry is clustered primarily in two locations, Cape Town and Johannesburg. There are approximately 150 registered producers currently active in South Africa. For reasons of consolidation and economies of scale, 15 of these companies command over 90 per cent of feature films and television production. South Africans aggressively market themselves internationally and seek projects that include filming not only in South Africa, but also throughout Africa. Martin Cuff pointed to a recent remake of the classic Flight of the Phoenix. A South African company filming mainly in Namibia did much of the location work. In 2002-2003, 35 feature films and television series were shot in Cape Town.

16. Cape Town is ahead in the race to develop a major film studio. South African film producer Anant Singh (I Capture the Castle, Comrades), ironically a native of Durban, is spearheading the project. Singh has pushed for the construction of Dreamworld Film City, a Hollywood-standard, big production studio complex in Cape Town. Land clearing for the studio, situated along the N-2 between the Cape International Airport and Somerset West, is already underway. Construction is set to begin next year, with completion of the first phase set for 2006. When completed, Dreamworld Film City could generate employment for as many as 8,000 individuals. The estimated cost of the studio is 400 million Rand with the studio slated to receive approximately 60 million Rand from the Cape Town municipality.

17. The advantage of Johannesburg resides in the fact that more than two-thirds of the television production capacity of South Africa is in Gauteng and the South African Broadcasting Corporation has been reluctant to farm out work to Cape Town and elsewhere. Other investments in post-production such as a film lab in Cape Town and Johannesburg-based sound studios have substantially augmented film production capabilities.

Recent Successes

18. Recent South African feature film credits includes a number of potentially attention-grabbing productions. "Country of My Skull," a \$15 million dollar production staring Samuel L. Jackson and Juliette Binoche, was filmed substantially in Cape Town and looks at the end of the apartheid regime. The official release of the movie is scheduled for Cape Town later this year. Two feature films with international stars are currently underway in Cape Town. Colin Farrell, Selma Hayek, and Donald Sutherland star in "Ask the Dust" set in 1930's Los Angeles. "Ask the Dust" is considered a labor of love with the salaries paid to the cast being comparatively low and overall budgeting for Cape Town set at about USD 7 million. The project involves the construction of elaborate period sets. "The Lord of War", an action movie about an international arms dealer, features Nicholas Cage and Ethan Hawke. Conversations with production crew indicate that Cape Town and the Western Cape were chosen less for reasons of cost and more because the Western Cape offered "a microcosm of diverse locations". For "The Lord of War," a total of 39 locations have been selected to simulate locales as diverse as Afghanistan, Cuba, and Sierra Leone, yet all within a short drive of Cape Town. Sean Penn is set to appear in "Last Face," a movie about two humanitarian doctors in war-torn Africa nation. Finally, also on the radar screen is a remake of the 1970's "Poseidon Adventure," with Film Afrika to take the lead in Cape Town. According to Martin Cuff of the Cape Film Commission, one of the reasons for the selection of Cape Town was the ability of the producer to draw from the yacht construction industry to build the Poseidon set. The Cape Town film industry hopes these

projects will encourage others to follow suit in 2005 and beyond.

Other Incentives and Supports

19. --- The government's Industrial Development Corporation (IDC) considers the film industry one of its critical sectors. The Media & Motion Pictures division serves as a financing vehicle and will provide as much of 50 per cent of production costs. Minimum equity loans are one million Rand. "Stander," a full length movie centering around policeman turned robber released only in South Africa is viewed as one of the more successful products that has returned money to the IDC. Overall, the IDC reportedly has 250 million Rand to finance film projects.

--- National Film & Video Foundation (NFVF) in Johannesburg was created to in order to increase local content quotas for television. According to DTI, the IDC and the NFVF invested in 16 of the 24 films produced in South Africa in 2003. Its capital stock for feature films is reportedly 35 million Rand. NFVF plays an important role in funding, training, developing, and promoting the South African film industry.

--- City of Cape Town has adopted as part of its mission statement the creation of a "film-friendly environment." The city has worked actively with the Cape Film Commission to hold down prices for filming permits, provided traffic control and off-duty police services, and other supports for the film industry throughout the extensive metropolitan area. Cape Town has also committed to underwrite part of the costs of the Dreamworld Studio complex.

--- Regional Film Commissions - There are formal film commissions for Cape Town, Johannesburg, KZN (Durban) and the Eastern Cape (Port Elizabeth). The Cape Film Commission claims pride of place, seeking to serve as a one-stop information shop for local and international filmmakers. It seeks to pare down costs for filming, especially charges for locations on private properties, and provide public relations support for the film industry. It clearly seeks to increase participation by Africans and advance Black Economic Empowerment, mainly through learning opportunities in the film industry. Budgets and staff support, however, are small. Cape Town has an advisory council and approximately 10 permanent staff, most responsible for processing filming permits.

--- DTI indicated that the launch of the new rebate scheme was just the first of a set of support measures to develop the film industry in South Africa. Eventually, the full package will cover production cost, training and an internship program, and export marketing support.

Conclusion

10. Overall, the South African film industry appears to be on the rise, particularly in the feature film arena. Even with the strong Rand, South Africans believe they can compete internationally. New incentives and successful film projects may lure additional work to South Africa. Another critical factor are relative low costs for skilled labor. Cuff and others are upbeat about feature film production with long lead times and negotiated pay structures that help soften the impact of exchange rate fluctuations. Cuff maintains that even with a strong Rand overall film production costs are still 50 percent less than for a comparable product in the U.S. Cuff was less upbeat about advertising and television commercial production. He felt Cape Town was increasingly pricey and in recent years overexposed. Some in the industry worry the South African film might be poised to slip from the present boom cycle. Trying to catch up with an Australia or a Canada, the South African industry must also look over its shoulder at new rivals such as Argentina and Chile, who are making gains, especially for commercials and television spots.